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NEXT REVIEW DATE: _____

AUTH: HR 70-2

DATE 12-28-79 REVIEWER:

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NSC BRIEFING

17 August 1959

INDIAN ECONOMIC SITUATION

(Background Statistics Attached)

- I. Indian leaders are presently drafting an extremely ambitious Third Five-Year Plan (1961-66) which they hope will speed India's economic growth.
 - A. While they are pleased with the one-third increase in national income achieved since 1950, they believe the Indian economy must grow faster lest India's growth fall dangerously behind Communist China's.
 - B. They are also aware that they must halt rising unemployment and at least partially satisfy the growing demands for better living standards from the rapidly growing population (410 million now; 475 million by '66).
- II. Indian leaders believe these problems require a \$21 billion third plan, even though they will not be able to muster enough funds to carry out more than 90 percent of the \$15 billion Second Five-Year Plan (1956-61).
 - A. While a few Indian officials claim that a \$21 billion plan would require only about \$3 billion in foreign aid, most Indian and US officials think India's requirements will be much larger.
 1. Since India has received nearly \$3 billion in aid--and has reduced the sterling balances to get an additional \$1 billion--during the smaller second plan, the \$3 billion estimate appears unrealistic.

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- B. B. K. Nehru, India's roving economic ambassador, this spring told Washington officials India would require \$1 billion annually in foreign aid for the third plan.
- III. The USSR recently announced a \$375,000,000 credit for the third plan, apparently hoping to make a favorable impression in India by pledging early support for important projects of the plan. (Reports indicate that more Soviet aid will be extended for the plan.)
- A. The credit apparently provides for doubling the capacity of the Bhilai steel mill and constructing heavy machinery plants and a large petroleum refinery.
- B. Soviet bloc aid to India now totals \$699,000,000--about one fourth of the Free World aid to India.
- IV. Having emphasized agriculture in first plan and industry in second, Indian leaders hope in third to push both at once.
- A. Return of food shortages in the past few years has convinced them agriculture must get increased emphasis.
1. Marketing and credit cooperatives are to be set up throughout India to provide incentives for the peasants by breaking the hold of the moneylenders and village traders.
- B. The third plan also calls for the steady growth of basic industry and the development of a machine building industry large enough to enable India to make most of its own machinery.

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- V. Successful completion of the ambitious plan would substantially increase India's confidence that modernization is possible under democratic methods and leadership.
- VI. However, it would not in itself ensure that India would carry on as a united and democratic nation.
 - A. Divisive forces of caste, language and regionalism will continue to be serious threats to India's unity and progress.
 - B. The decline in vigor and popularity of the Congress Party probably will continue, and a period of political instability is likely, particularly after Nehru's departure.

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BACKGROUND: INDIAN ECONOMY

1959 Population: India--410,000,000: Communist China--650,000,000

1958 Indian gross national product--\$28 billion (United States GNP--\$437 billion)

1958 Per capita gross national product--\$70 (United States--\$2,500)

First Five-Year Plan (1951-56)

Goal	\$ 7.5 billion	Achievement	\$ 6.7 billion
Government	\$ 5.0 billion	Government	\$ 4.2 billion
Private	\$ 2.5 billion	Private	\$ 2.5 billion

(Total Foreign Aid: \$630 million, all free world)

Second Five-Year Plan (1956-61)

Goal	\$15 billion	Estimated Achievement	\$13.5 billion
Government	\$10 billion	Government	\$ 8.5 billion
Private	\$ 5 billion	Private	\$ 5.0 billion

(Total Foreign Aid: \$2.8 billion.
\$2,475,000,000 from free world;
\$325 million from bloc.)

Third Five-Year Plan (1961-66)

Tentative Goal	\$21 billion
Government	\$14 billion
Private	\$ 7 billion

India's foreign exchange reserves--sterling balances accumulated during World War II--declined from \$1,860,000,000 by \$295,000,000 during the first plan (1951-56) and have declined by a further \$1,190,000,000 since the second plan began in 1956. They now stand at \$375,000,000 exclusive of the \$247,000,000 gold reserve.

The cost of living has increased 10 percent since 1956, after increasing by only 5 percent from 1950 to 1956.

India usually exports about \$1,250,000,000 worth of goods each year--over one half consists of tea, jute goods and cotton textiles.

India normally imports about \$1,750,000,000 worth of goods each year--about two thirds consists of machinery, metals, petroleum and chemicals.

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